

## ***Henderson Ridge Consulting, Inc.***

***7170 Meadow Brook Court  
Cumming, Georgia 30040  
office: (770)205-8828 fax: (770)205-0338  
E-mail: wbarta@bellsouth.net***

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January 14, 2015

Louisiana Public Service Commission  
Brandon M. Frey  
Executive Counsel  
602 North Fifth Street (Galvez Building)  
P.O. Box 91154  
Baton Rouge, Louisiana 70821-9154

**Re: RFP 14-23 Docket No. X-33322**

**In re: Request for Proposals for outside consultant to assist Staff with the Fuel Adjustment Clause Audit of Southwestern Electric Power Company's charges flowed through its Fuel Adjustment Charge, from the period beginning January 1, 2005 through December 31, 2013 (2005-2013).**

Dear Brandon:

Henderson Ridge Consulting is pleased to respond to the Louisiana Public Service Commission's ("LPSC" or "the Commission") December 23, 2014 Request For Proposals ("RFP") for independent technical consultants to assist the Commission Staff in the fuel adjustment clause ("FAC") audit of Southwestern Electric Power Company ("SWEPCO" or "the Company"). As defined in the RFP, the audit review period covers the years 2005 through 2013.

Henderson Ridge Consulting is very experienced with the filings and applications of SWEPCO. In Docket No. U-29177, HRC examined the prudence of SWEPCO's resource planning, resource procurement practices and incurred fuel costs for the period of January 2005 through October 2005. In the course of evaluating and designing Formula Rate Plans ("FRP") for other utilities on behalf of the Commission, HRC became very familiar with SWEPCO's FRP. As a part of the assessment of Advanced Metering Infrastructure ("AMI") and Smart Grid Programs and Technologies, HRC reviewed SWEPCO's general plan regarding the implementation of AMI and Smart Grid

technologies as well as its plans to benefit from and leverage off of the extensive experience in this area of its parent company, American Electric Power.

### **Scope of Representation**

Henderson Ridge Consulting has developed a detailed work plan that ensures that the scope of services identified in the Commission's Request For Proposal are fulfilled. The proposed work plan is designed to achieve the Commission's objectives for the audit including:

- A review and analysis of the utility's monthly comprehensive fuel adjustment reporting requirements filed with the Louisiana Public Service Commission.
- If applicable, the development and improvement of internal staff procedures to effectively monitor and evaluate a utility's performance in areas impacting the fuel and purchase power cost which are reflected in the utility's monthly fuel adjustment filings with the Commission.
- A review and analysis of the utility's monthly comprehensive fuel adjustment filings to assure compliance with all pertinent state and federal regulations.

Upon completion of our audit, we will prepare an Audit Report that presents the findings, conclusions, and recommendations of our investigation.

### **Period of Representation**

We estimate that the time period necessary to complete the fuel audit is twelve to eighteen months.

### **Proposed Work Plan of Henderson Ridge Consulting**

The work plan proposed by Henderson Ridge Consulting includes audit procedures that are routinely performed in the course of investigating a regulated utility's Fuel Adjustment Clause filings. These activities include, but are not limited to, an examination of the monthly filings (and related support) submitted by SWEPCO during the audit period. The monthly filings will be reviewed for completeness and accuracy and to detect computational errors and/or clerical inaccuracies that may have impacted

the Company's rates. We will also perform analytical review procedures that seek to determine whether any significant changes or abnormalities occurred during the audit review period. In addition, we will assess whether the types of costs (i.e. fuel related) flowed-through the Fuel Adjustment Clause were consistent with the requirements of the Commission's General Order.

We will conduct additional audit procedures that focus more on the operations and practices of the Company in order to assess how these measures may have ultimately impacted the monthly fuel filings and rates. As part of that review, we will assess SWEPCO's practices for economical purchase and use of fuel and electric energy. We will also conduct a review and analysis of SWEPCO's monthly fuel adjustment filings to assure compliance with all relevant state and federal regulations.

Once our audit fieldwork is complete, we will prepare a separate Audit Report that presents the findings, conclusions, and recommendations that are based upon our auditing efforts.

In summary, the scope of services, at a minimum, shall include the preparation of the Audit Report and the following activities:

- The review and analysis of all Fuel Adjustment Clause filings and related filings made to the Commission by SWEPCO during the years 2005 through 2013.
- Review of prior FAC audits of the Company.
- Reconcile financial information and operational data reported in the monthly FAC filings with other sources of data (e.g. FERC Form 1 reports, investment community reports).
- A detailed review of purchased power transactions.
- Meetings with the Commission Staff and Commissioners.
- Meetings with Company representatives.
- Site visits for audit fieldwork or other matters.

- Preparation of discovery.
- Preparation of the Audit Report and, if necessary, prefiled direct and rebuttal testimony.
- Participation in hearings and other tasks normally associated with the pre-hearing process.
- Assistance in the preparation of post-hearing briefs.
- Presentation of the Audit Report at the Commission Business & Executive Session.
- Assistance in the drafting of the Commission Order.
- Provide general support services to Staff throughout the engagement.

**Experience of Henderson Ridge Consulting**

The extensive utility auditing experience of Henderson Ridge Consulting and our familiarity with SWEPCO makes the firm particularly well-suited to conduct the audit of the Company's Fuel Adjustment Clause filings. Our firm's auditing experience includes Purchased Gas Adjustment audits, Fuel Adjustment Clause audits, Environmental Adjustment Clause audits, avoided cost audits, compliance audits, affiliate transaction audits, management audits, and single-issue audits.

Henderson Ridge Consulting is currently completing the second phase of the FAC audit of Entergy Louisiana, LLC ("ELL") for the audit period of 2005 – 2009. Our initial audit report identified and quantified errors and inaccuracies in ELL's monthly FAC filings that will result in credits for ratepayers. In addition, we recommended a series of improvements in the preparation and documentation of the monthly FAC filings that should facilitate the Commission's future FAC audits of ELL.

Henderson Ridge Consulting has also conducted Purchased Gas Adjustments audits of local gas distribution companies on behalf of the Commission. In addition, we conducted the audit of SWEPCO's gas procurement practices during the period shortly

after the landfall of Hurricanes Katrina and Rita. Over the years, Mr. Barta has reviewed the fuel adjustment clause filings of the Entergy operating companies as a consultant to the Commission. Mr. Barta has also reviewed the power cost adjustment filings of the distribution cooperatives under the Commission's jurisdiction as part of earnings reviews and other ratemaking dockets.

Henderson Ridge Consulting has been retained to conduct over twenty biennial compliance audits and over twenty Universal Access Fund audits of regulated utilities on behalf of the Georgia Public Service Commission. Henderson Ridge Consulting has also been retained by state regulatory authorities, including the Louisiana Public Service Commission, to conduct affiliate transaction audits and single-issue audits (e.g. disbursements from State funds, traffic usage data, etc.).

Mr. Barta is a Certified Public Accountant and is experienced in analyzing the operations and books and records of utility companies. This experience covers (1) appropriate accounting standards and practices for utilities, (2) appropriate ratemaking adjustments to the utility's accounting records, (3) appropriate allocations of costs to base rates and fuel charges, (4) recoverable expenses for ratemaking purposes, and (5) utility taxation issues.

### **Minimum Requirements**

Henderson Ridge Consulting is experienced in analyzing the operations and the books and records of electric utilities, local gas distribution companies, telecommunications carriers, and water and sewer companies under the jurisdiction of the Louisiana Public Service Commission. This experience has been applied for the purpose of setting just and reasonable rates in the recovery of costs from ratepayers.

As discussed in the Experience section of our proposal, Henderson Ridge Consulting is very familiar with the ratemaking treatment and principles specific to SWEPCO.

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Henderson Ridge Consulting has reviewed the list of Minimum Requirements identified in Section III of the Commission's RFP. Our firm is experienced with each of the Minimum Requirements and can readily satisfy this group of professional standards that the Commission expects of its expert consultants.

**Estimate of Cost**

Henderson Ridge Consulting anticipates that the audit of Entergy Louisiana, LLC's Fuel Adjustment Clause filings for the period of 2005 through 2009 will require a total of 850 hours. The professional fees for the project are estimated at \$114,750.00 based upon an hourly rate of \$150 for William Barta and \$135 for Debbie Barta and Kathryn Mastrangelo. Travel-related expenses are anticipated to be \$3,000.00 for a total budget of \$117,750.00.

**Conflict of Interest**

Henderson Ridge Consulting has no current assignments, or any prior assignments, that could pose any conflicts of interest, or the appearance of such conflicts, including, but not limited to, any work performed on behalf of the Louisiana Public Service Commission.

I appreciate the opportunity to respond to the RFP and to continue our relationship with the Commission and its Staff.

Sincerely,

William Barta  
Principal